Aldar Properties H1 2024 Financial Results Call Monday, July 29, 2024

Operator Hello, everyone, and welcome to the Aldar Properties H1 2024 Financial Results Call. My name is Emily and I'll be coordinating your call today. After the presentation, there'll be the opportunity for you to ask any questions, which you can do so either by pressing star, followed by the number one on your telephone keypad. Alternatively, if you're streaming today's call online, please type your questions into the Q&A chat box. I'll now turn the call over to our host, Chief Financial and Sustainability Officer, Faisal Falaknaz. Please go ahead.

Faisal Falaknaz As-Salaam-Alaikum. Hello, everybody. Thank you all for joining us on this call to discuss Aldar's financial performance for H1 2024. As the UAE continues to provide a conductive macroeconomic environment for the sector, Aldar has delivered strong year-to-date growth, driven by solid demand across all real estate asset classes. Revenue was up 73% year-on-year at 10.9 billion dirhams, while EBITDA rose 61% to 3.9 billion dirhams. And net profit increased 57% year-on-year to 3.3 billion dirhams. Please note that the overall effective tax rate was 4.1% in the first half, following introduction of corporate income tax in January.

Our two core platforms, Aldar Development and Aldar Investment, have achieved significant scale and diversification over the last three years. In the first half of the year, Aldar Development recorded strong performance, driven by ongoing recognition of its sizeable revenue backlog, which has reached a record 39 billion dirhams. Since the start of the year, the business has been operating at an elevated run rate as it effectively develops and delivers against the growing development project pipeline over the last few years. The platform is well positioned for sustainable growth.

We continue to extend our market leadership as the UAE's leading destination builder, diversifying our target customer segments and product offering, as well as building further scale in our home market and internationally through strategic landbank replenishment. Aldar Investment also recorded strong performance, driven by organic growth, complemented by prior year acquisitions which are delivering meaningful returns. The business continues to excel as an active asset manager and benefits from a high-quality asset base, with strong positioning in the context of a thriving UAE market.

We remain focussed on key growth drivers, executing against our develop-to-hold strategy, diversifying and expanding our portfolio through disciplined capital deployment across target markets and implementing our asset repositioning and optimisation strategy. Turning to slide four, Aldar Development sales continued their strong momentum, rising 21% year-on-year to 14 billion dirhams in the first half, driven by five new project launches and strong inventory sales. EBITDA increased 77% year-on-year to 2.2 billion dirhams in H1. As mentioned earlier, the business is maintaining an elevated run rate since the start of the year.

Acceleration of project delivery resulted in robust cash collection of 4.4 billion dirhams in the first half and we expect full year 2024 cash collections to reach between 8 to 9 billion dirhams. Demand has been particularly strong among overseas and expat buyers, with sales to this demographic doubling year-on-year to 10.2 billion dirhams in the first half or 79% of total UAE sales. Given trends seen in H1 sales in the profile of upcoming launches, such as Al Fahid in H2, we expect demand to be well balanced between UAE nationals, resident expats and overseas buyers in the second half.

On the international front, both SODIC and London Square are making strong progress on implementation of their growth strategies. With the economic situation stabilising in Egypt, SODIC ramped up sales in the second quarter and the development backlog now stands at 4.2 billion dirhams, with an average duration of 32 months. London Square is laying solid foundations for future growth, having completed the acquisition of seven land plots since the beginning of 2024. Group development backlog now sits at 39 billion dirhams, providing strong revenue visibility over the next two to three years.

Given the pipeline of new launches, we see group backlog progressively moving towards the 50-billion-dirham mark. Turning to Aldar Investment on slide five, disciplined expansion and diversification over the last couple of years delivered revenue and adjusted EBITDA growth of 30% and 20% year-on-year respectively. The platform is executing against this comprehensive develop-to-hold strategy to deliver diversification scale and earnings growth. To date, Aldar has committed a total of 7.6 billion dirhams towards a pipeline of develop-to-hold assets. This includes the initial 5 billion dirhams in Abu Dhabi that spans the commercial, retail and hospitality segments, which was announced at the start of the year.

The recently announced commercial entry into Dubai, with the development of an iconic office tower on Sheikh Zayed Road - this alone is a commitment of 1.6 billion dirhams. I will share further details on this announcement later in the call. Additionally, I'll also expand on the 1-billion-dirham commitment and logistics across Abu Dhabi and Dubai to develop built-to-suit facilities, drive expansion of existing assets and develop a logistics park through a partnership with DP World. The D-hold strategy complements Aldar's ongoing strategic expansion, repositioning and optimisation initiatives, which comprise the following: a retail redevelopment programme for Alhambra Mall in Ras Al Khaimah, which has now been completed, and Al Jimi Mall in Al Ain, which we expect to conclude by the end of next year. Our hospitality transformation programme, where we will be conducting major refurbishment work on some of our hospitality assets to capitalise on the growing demand for premium hospitality experiences in Abu Dhabi amid rapid expansion of the leisure and tourism sector. This redevelopment work will ultimately drive higher future income and align with our resort destination focus. And finally, with greenfield expansions in Aldar Education business, with two new schools opening at the start of the 24-25 academic year, as well as a third school in the following year.

On slide seven, you will see further detail on each segment within Aldar Investment. The investment properties portfolio continues to perform very well, supported by active asset management and a successful leasing strategy driving higher occupancy rates. Adjusted EBITDA for investment properties increased 19% year-on-year to 852 million dirhams in H1, with occupancy at 94% across the portfolio.

The commercial portfolio stands out, with H1 adjusted EBITDA increasing 35% year-on-year, partly supported by a one-off gain from the strategic disposal of a legacy asset in the first quarter of the year. Excluding this one-off gain, the portfolio adjusted EBITDA was up 17%, while the overall investment properties adjusted EBITDA was up 12% year-on-year. Continuing on commercial, amid strong demand for premium Grade A office space, rental rates have increased and occupancy across the portfolio now stands at 97%. Al Maryah Tower, which opened in March this year, is operating at 83% occupancy.

In retail, Yas Mall has reinforced its status as the premier retail and entertainment destination in Abu Dhabi, with occupancy of 95%, tenant sales rising 8% year-on-year and a 16% increase in footfall in the first half of the year. The hospitality and leisure portfolio experienced a slight decrease in adjusted EBITDA due to a one-off income recognised a year earlier. Excluding this, adjusted EBITDA was up 8% year-on-year, with occupancy at 73% and RevPAR up 10% year-on-year. Aldar Education has recorded a 25% year-on-year increase in adjusted EBITDA to 116 million dirhams in H1. Enrolments were up 27% in the first half at Aldar-owned and -operated schools.

Meanwhile, Aldar states adjusted EBITDA surged 160% year-on-year to 155 million dirhams in H1 following transformational M&A activity last year. The business now manages 158,000 units and holds contracts valued at over 1.9 billion dirhams on slide eight, you'll see some details on the recent announcement we have made in July. As part of our previously announced 1 billion dirhams logistics commitment, we have signed a strategic agreement with DP World. The agreement will see Aldar develop a Grade A and LEED-certified logistics park, spanning 144,000 square metres in GLA, within National Industries Park in Dubai.

Catering to the strong demand we continue to see, the logistics park will comprise three buildings that can be modified to become single or multi-tenant facilities, offering flexibility for third-party logistics, e-commerce and retail tenants. You will also have seen our recent announcements on Aldar’s entry into the Dubai commercial real estate market. We see this as an exciting opportunity that complements Aldar’s growing presence and growing brand in the Emirate of Dubai. We have acquired an exceptional plot of land on Sheikh Zayed Road, adjacent to DIFC, to develop a Grade A office tower, incorporating a luxury boutique hotel and branded apartments.

The tower will have a leasable area of 88,000 square metres and is scheduled for completion at the end of 2027. In addition, Aldar has also completed the acquisition of 6 Falak, a fully occupied Grade A office building in Dubai Internet City. Together, these two strategic commercial investments involve a total commitment of 1.8 billion dirhams and add to our growing offering in the Emirate of Dubai. Moving to slide number nine, you will find our key balance sheet metrics. Aldar maintains a conservative leverage profile with strong liquidity. As at the end of July, the company had 3.6 billion dirhams in free cash and 7.6 billion dirhams in undrawn credit facilities.

We continue to actively manage our liabilities to achieve strategic and financial objectives. This year, Aldar has secured 3 billion dirhams in senior unsecured financing. The five-year revolving credit facilities have improved liquidity and extended the average debt maturity to 5.4 years. In May, Aldar issued a second US$500 million ten-year green sukuk and tender to buy back the 2025 sukuk. The issue which achieved the tightest credit spreads ever priced by Aldar supports our sustainability goals and also help to extend our maturity profile. Furthermore, in Q2, Aldar refinanced London Square debt with a new, larger unsecured loan at more favourable rates and conditions.

Looking ahead, Aldar plans to invest further income-generating assets and new growth sectors, while maintaining a disciplined approach to capital deployment to ensure value and strategic alignment. Turning to sustainability highlights on slide number ten, as you know, Aldar took the strategic decision to commit to achieve net zero by 2050. And we are focussed on making steady progress towards this ambition. We are also driving improved energy use across new developments. Aldar received the highest sustainable urban design rating in Abu Dhabi, the Estidama Pearl 5 for the sustainable city in Yas Island.

And all developments launched in H1 achieved Pearl 3 rating. Meanwhile, the Athlon Development in Dubai was awarded the UAE's first LEED Platinum Certification for community plan and design. I would you like to conclude, on slide 11, where we reiterate our guidance for full year 2024, which we had revised at the end of Q1. Our strong trajectory this year means we are very much on track to meet guidance for adjusted EBITDA in the range of 6.2 to 6.5 billion dirhams. For development, our guidance is for sales of between 29 and 31 billion dirhams and EBITDA of 4.1 to 4.3 billion dirhams.

For Aldar Investment, our guidance for adjusted EBITDA is in the range of 2.3 to 2.5 billion dirhams. With that, we would like to conclude the presentation and open the floor to questions. Thank you.

Operator Thank you. As a reminder, if you would like to ask a question today, please do so now by pressing star, followed by the number one on your telephone keypad. Or alternatively, by typing your question into the Q&A chat box, which can be found on today's slides. Our first question today comes from the line of Steve Bramley-Jackson with HSBC. Please go ahead. Your line is now open.

Steve Bramley-Jackson Thank you very much. Good afternoon. Good set of figures. Well done. I've just got a few questions, if I may. The first, your property development’s gross margins, they seem a little light compared to what we were expecting and indeed, I think, perhaps based on what you've been guiding towards previously. What should we think about the gross margin trajectory of the development business? That's my first question. Would you like me to ask them individually or give you all the questions in one go?

Faisal Falaknaz Let me jump right into it. Last year, we had a decent amount of land sales that came in that are very margin accretive. Land sales typically have margins around 60, 70, 80% plus. Year-to-date, we've had very limited plot sales or land sales. But those should be expected to pick up towards the latter end of the year. But like you said, the guidance is probably in line with where we are at. However, we are very focussed as a group, not only to improve our top line by constantly pushing our prices at every launch. You look at our recent Dubai launches, the one we did back in May, Athlon, followed by the apartments recently. We pushed prices by around 5 to 10% compared to the previous ones. That should help accrete the margins going forward. But most importantly, we're very focussed on optimising our cost. We are very, very laser-focussed on making sure that we maximise our margins without obviously affecting the customer experience in the end.

Steve Bramley-Jackson Thank you. That helps. My second question was on the tear in the hotel development, which is on the edge of the DIFC. I was curious… I think you've clarified it in the presentation. I wondered whether it was a development contract, but you, I think, state that you actually bought the plot. One thing I was curious about is… I met one of the architects that's been working on the scheme, but I didn't know who was doing it. Have you actually owned the site for quite a while, or did you wait to take ownership? And once you get the planning…

Can you just give us a little bit of a sense as to whether you've had the site for a period or indeed whether you've got other sites actually already under your control in Dubai? Thank you.

Faisal Falaknaz We bought the plot last year and we disclosed it in the financial statements. I think we bought it for around 270 million dirhams. We believe that cost basis today is very attractive for a very prime plot such as that. It is facing Sheikh Zayed Road and facing the DIFC on the other side. I would guess that if we put it out in the market today, we can probably sell it for twice the price. But we're not traders. We think this is going to be a very prime offering in the onshore market… This is not free zone. However, it is in close proximity to the free zone for corporate tenants, Grade A, blue chip corporate tenants for them to occupy a state-of-the-art facility that's going to have very efficient floor plates, high sustainability credentials, and more importantly, it's a 'lived' work offering where the luxury hotel and branded residence is a very limited component, but complementary to the overall offering. There's going to be a boutique luxury hotel at the top, and you see that in the picture of the tower that we put out. You're looking at keys, somewhere between 150 to 200 keys between the branded residence and the luxury hotel component, which is going to have, obviously, an extensive F&B offering as well. We think this is going to be one of the most exciting commercial office offerings to Dubai when it comes online in 2027. And we're expecting to make yields, if not in the high single digits, probably in the low double digits most likely.

Steve Bramley-Jackson That's return on investment, is it?

Faisal Falaknaz The yields on cost, yes.

Steve Bramley-Jackson Yield on cost.

Faisal Falaknaz That's yield on cost, exactly.

Steve Bramley-Jackson Absolutely. That's all. Thank you. And then just my last question bit, I suppose it's a bit of modelling question, really. But you still appear to be doing very well on your tax rate, half the going rate in the UAE. And yet one of your peers is paying a substantially higher tax rate. When I say normalised, will it move towards the normal tax rate by the end of the year? Or for some reason, are you able to keep your tax cost at half the going rate?

Faisal Falaknaz Steve, there are two things that are playing into this. Number one is the depreciation deduction, which doesn't appear on the financial statements, but for tax purposes, we get to take depreciation deduction. The second thing is the transition rules for fair value of land. The land today on the books sits at cost. But for tax purposes, we get to take it on the cost of goods sales at fair value, which reduces our tax bill as well. That's why you see an effective tax rate that is lower than the statutory tax rate of 9%. The last one, Steve, apologies, is wherever we operate in free zone, ADGM, we do not pay a corporate income tax there. That’s also driving the tax rate down.

Steve Bramley-Jackson Of course. Faisal, that's very helpful. Thank you very much.

Faisal Falaknaz Thank you, Steve.

Operator Our next question comes from Mohamad Haidar with Arqaam Capital. Please go ahead.

Mohamad Haidar Hi, Faisal. Congratulations on the results and thank you for sharing the information on what's been handed over in terms of units and what's being sold. Starting with that point and knowing that you still have land exceeding 9.5 million square metres or gross floor area, can you help us understand how many units can this remaining land produce in the next five or seven years in both Abu Dhabi and Dubai? That is my first question, please.

Faisal Falaknaz That's a very theoretical question because it depends on master planning all that land bank, which obviously we haven't done it for all the land bank. But rest assured, with the current run rate that we're selling at, which is somewhere between 25 to 30 billion dirhams, we have land that will keep us going for the next decade, at least. Dubai is another story, obviously, because in Dubai, we have to compete for land. The three master plans that we have in Dubai Holding had a GDV potential of north of 25 billion dirhams. To date, I think we've sold somewhere between 7 to 8 billion dirhams on those already.

We still have some room to grow, at least for the next one to two years. We are therefore focussed on continuing to replenish land in Dubai, which is a core part of our capital allocation strategy. But then in Abu Dhabi, we have a very strong competitive advantage, obviously, given our positioning in the market, to be able to procure land through various ways. In Abu Dhabi, we're not worried. But in Dubai, we obviously have to compete for that land.

Mohamad Haidar That's very clear, Faisal. Thank you. And moving to Aldar Investment, we have 7.8 billion dirhams of committed capex on develop-to-hold. And as a general philosophy, should we always expect Aldar to spend another 5 to 6 billion on new acquisitions, regardless of what's announced? Do you have this as a general philosophy or you will scale back a bit on investments with what you have currently on hand?

Faisal Falaknaz Our capital allocation bucket has a few major components. The first one, which we spoke about, is land replenishment. The second is development to hold, which is the 7.6 billion that you refer to. The third is repositioning, which is not significant in nature. And the fourth is recurring income. The 5 billion that we've guided to the market is on the recurring income side of things. And it doesn't mean that every year, we’ll be spending 5 billion. We do cash flow forecasting in terms of how much available cash we have after having done our business plan in terms of how much capital we want to allocate across the various divisions.

We remain committed, as of now, to deploy these 5 billion dirhams on top of the 7.6 billion dirhams. The 7.6 billion will be invested over the next three to four years, because it takes time to build out the whole portfolio. We've been telling the market that we're making good progress in terms of investing these 5 billion dirhams. And again, we remain to be very, very optimistic that we will invest it. It takes time to get those deals properly priced and negotiated to be in a good position to close. We've had a very good track record in terms of the returns we've made on our acquisitions over the past two, three years.

We are very focussed on making sure that we maintain that track record and don't get carried away with just deploying capital and destroying shareholder value over the long term.

Mohamad Haidar That's all clear, Faisal. Thank you.

Operator Our next question comes from Taher Safieddine with JPMorgan. Please go ahead.

Taher Safieddine Good afternoon, Faisal. It’s Taher JPMorgan. Just maybe a few questions from my side. Again, congrats on a very solid set of numbers. On the development front, how are we looking at level of demand absorption rates in Abu Dhabi and Dubai? Maybe you can share also some colour on recent launches in Abu Dhabi. That would be helpful just to understand the market dynamics. Where are we on that? And I think, just a follow-up, is the level that we're talking about today of, I don't know, 20- 25 billion in the UAE excluding London Square and SODIC?

Do you think this is sustainable into next year or how should we think about the more sustainable rate when it comes to off-plan sales? That should be mainly my first question on the development front.

Faisal Falaknaz What's interesting is that during the first half of this year, we had five launches. Whereas last year, we had ten launches. Yet this year, our sales were up more than 20%. We've been very focussed on making sure that we don't build up a lot of inventory. And by inventory, just so that everybody is clear, it's not ready inventory. It’s just off-plan inventory that builds up every time we do a new launch. And again, despite having half the number of launches, we were still able to sell significantly well. I’d say the demand in Abu Dhabi continues to be strong.

And you have other players today that are competing for that liquidity in Abu Dhabi. The market, I would say, is maturing. It's a very positive sign. It continues to attract the resident expats and international buyers, which, as you see, made up 79% of our buyer base in the first half. And we see that momentum continuing going forward. And in H2, we'll have a much busier calendar when it comes to launches. In Dubai, I would say the demand also continues to be strong. You guys know the numbers better, but H1 numbers in Dubai are stronger than they were last year.

And we tested a new product in Dubai, which was apartments. We've never sold apartments in Dubai. And we were able to sell extremely well, more than a billion dirhams, in a product that you could argue is extremely competitive. We remain to be also very positively optimistic about the prospects in Dubai. On the run rate, we did 24 billion dirhams in the UAE last year. With the current guidance that we have in place, you can extrapolate and say that we'll probably be doing 27 to 28 billion dirhams in the UAE this year, which is a healthy rate of growth. In terms of guidance for next year, it is very difficult to give that guidance at this point.

I think what is better is for us, after we announce Q4 results, we'll have a better direction in terms of where the market is, what is our calendar in terms of launches and the products that we have. But like I always say, we will always capitalise on the strength of the market. As long as the market remains strong, we will dominate and try to capture as much as we can through the product offering that we have readily available.

Taher Safieddine Very clear. And just to confirm, Al Fahid Island and the third launch in Dubai, the third plot with Dubai Holding, these are going to be H2 events?

Faisal Falaknaz Al Fahid is going to be an H2 event. The third launch in Dubai, we are working very hard to get it launched before the end of the year. If we don't, it might slip into Q1 2025.

Taher Safieddine Very clear. Just moving to the recurring portfolio, just a few questions. Just on this recent announcement for the commercial office, just help us understand why go onshore when just the competitive advantage today is all this FDI and new companies opening shop in the UAE and Dubai. How are you thinking about competing with the likes of DIFC if you're not offering this offshore licencing? Which is what really matters at this stage. Just maybe your way of what makes you that confident that you're going to be able to deliver solid economics on this Grade A office space, despite this being onshore?

Faisal Falaknaz I think that's the exact competitive advantage. One, the DIFC is relatively more expensive. Probably 60, 70, 80% more expensive on a per square metre basis. The point about why didn't we go with free zone? It's a matter of availability. If we could, we would. But obviously, we cannot get access to that. We would love to have exposure to both. It's all about diversification. As a landlord, I'd like to offer my tenants onshore, non-free zone-licenced office spaces and free zone office-licenced spaces. The compelling part of this asset is that you'd have a lot of tenants, corporate tenants, who have to service tenants in the DIFC that do not have to pay expensive office rents in the DIFC.

They can be in very close proximity and service that area. I think the road connectivity, the connectivity to the DIFC, the specifications of that asset, we are very confident will make it very highly sought after. If you look more micro into the onshore market in Dubai, that's a very thriving commercial office market today. However, I think a lot of that market is becoming quite dated. And therefore, you have to become more micro about this - its location and quality of assets is going to make this stand out.

Taher Safieddine And just the final question on the recurring portfolio and just on the existing… Just if I take a look at the assets, you've clearly put a lot of money and capex in the commercial space. You've also now announced a significant uptake when it comes to logistics with the new plan. It just feels that maybe retail or that actually, residential is a bit left behind. And I think looking at the numbers also, the momentum from a P&L perspective has been quite weak on the residential leasing when you compare it to the other parts of the portfolio within the recurring segment.

Is there anything you can highlight? First of all, are you happy with the performance of the residential portfolio within Aldar's recurring segment or you think this deserves also maybe more investments to come through? I just want to hear your thoughts on that.

Faisal Falaknaz I absolutely agree with you. I think this was a missed opportunity from our side. We were very focussed on selling residential because, from a feasibility point of view, it made a lot more sense to sell it than to lease it. And I think we are catching up now. Our residential portfolio is fairly dated. It requires some refurbishment. But we are working and will be announcing in the right time a decent pipeline of residential product that is going to come into the recurring income portfolio. I think, last we spoke, we said that between acquisitions and between development to hold, we'd be looking to add somewhere between 3,000 to 4,000 units of additional residential units into the mix.

Taher Safieddine Into the leasing mix?

Faisal Falaknaz The leasing mix, yes. it's done well. To conclude, the portfolio has done well. It's defensive. It's stable. But has probably not participated in the run that the market has had on the residential side, given how dated that portfolio is.

Taher Safieddine Very clear. Thank you very much.

Operator The next question comes from Harsh Mehta with Goldman Sachs. Please go ahead. Your line is open.

Harsh Mehta Hi. Faisal, thank you very much for the presentation. Just a few questions. The first one is on the property development side. You've already explained a lot. I just want to understand, for the second half, is it possible to share a breakdown between Dubai versus Abu Dhabi on the pre-sales numbers? And then when you mention that 79% of your buyers are today international buyers, is it very similar between Abu Dhabi and Dubai or is it skewed, given that Dubai as a proportion of total sales is increasing?

Faisal Falaknaz Sorry, Harsh. Can you repeat the second question, please? Apologies.

Harsh Mehta Yes. You mentioned that roughly 79% of your buyers are international buyers now, expats plus investors. I was just hoping to know, is it getting skewed because of the Dubai launches or are you seeing similar proportion both in Dubai and Abu Dhabi?

Faisal Falaknaz The first question, Harsh, if you look at slide number 19 in the deck, you'd be able to see the split between the projects. You'll be able to tell how much is in Dubai and how much is in Abu Dhabi. 3.1 billion dirhams came from Athlon. And then you have Al Marjan, which was 1.8 billion dirhams. And, sorry, I missed Haven by Aldar. That's another launch You can figure out the split between Dubai and Abu Dhabi there. The second question is, yes, you probably have a point. The 79% is partly skewed by, one, Dubai has significantly more overseas than resident expats, and the launches that we had this year in Abu Dhabi were in the grove, which also, Nobu, for example, The Source, which also are generally skewed more to the international and overseas buyer front. And then lastly, Ras Al Khaimah as well. Which is why, if you noticed in my introduction, I said that we expect this to start moderating somewhat as we continue launching towards the second half of the year, especially with Al Fahid and Yas, for example.

Harsh Mehta Very clear. Thank you so much. The second question I had was on the fair value gains that were reported in your first half results. if you could just help us understand, what assets have seen this fair value gain and what's driving the gains? Is it the occupancy or lease rentals that are improving and driving these fair value gains?

Faisal Falaknaz I'll tell you the top three: **ADGM**, which is doing extremely well, not only in the occupancy side, but rental rates. The second one is **Al Maryah**, which is doing extremely well because it was non-operational last year and now it's 83% occupied with heads of terms that is very quickly going to take it to over 90%. And then the last one is **Yas Mall**.

Harsh Mehta Just one last question. In the slide where you mentioned LTVs and your targets, obviously that's improving on the investment property side. And I would assume the absolute loan or debt amount is still the same, but it's the value of that underlying asset that's growing. But on the property development side, against your guidance or target of 25%, you're almost at 22% now. How are you seeing in terms of the incremental requirement for debt on the property development side and how to manage it, given you have plans for capex and investments over the next few years, both between Dubai and Abu Dhabi?

Faisal Falaknaz One thing that has come in recently is the access to escrow accounts – so you'll notice that we have significantly more unrestricted cash today. That's due to the fact that we can post bank guarantees like RERA allows in Dubai, which we previously didn't have in Abu Dhabi. That's going to significantly lower our capital requirements, which we previously have had to fund ourselves for the first 20%. But I think, in general, the increased LTV on the development front is a sign of the elevated activity that is picking up with the backlog growing. We are very focussed on maintaining the LTVs within the guardrails that we have.

We do not plan on exceeding them, but we are looking at alternative sources of funding that will also help us drive this growth that is coming over the future.

Harsh Mehta Clear. Thank you.

Operator Our next question is a text question. And we have a few questions from Nida Iqbal Siddiqi from Morgan Stanley. The first question from Nida asks, can you comment on the outlook for demand for new sales in 2H 25 in UAE? Are there any signs of a stabilisation/slowdown in new sales in UAE? Do you see the trends sustainable over the next 12 months?

Faisal Falaknaz I think our guidance is the best reference that our outlook remains to be extremely positive. We closed last year at 27 billion dirhams almost for the group, which is expected to grow to 29 to 31 billion for the year. And the stabilisation, again, difficult to answer. But all the signs point to the market just becoming stronger. The population continues growing. We are opening up a new school in Yas in September and the pre-registrations on that school has been incredible. The commercial office performance, our retail footfall sales, it's just all the signs are extremely positive, which are correlated with more people coming to the country and demanding more real estate.

I think from our side, we remain optimistic. And in terms of guidance for next year, we would come back during Q4 results and give our view on that.

Operator The next question from Nida asks, in investment properties, your older estate segment continues to surprise to the upside. How should we think about the key drivers to this segment?

Faisal Falaknaz Nida, this is driven by the merger with Eltizam that happened back in July. If adjusted for a like-for-like basis, the business is probably going 20, 30%, I would say, just from the top of my head. But we can confirm later with the team. But organically, the business continues to grow very strongly. But the triple-digit growth is mainly driven by that merger effect.

Operator Thank you. And our final question from Nida asks, you have been recently announcing expansion into Dubai with commercial and logistics space. Should we expect more of such announcements?

Faisal Falaknaz Absolutely. Dubai is a very core market for us. When those opportunities come, we'll be announcing them to the market immediately.

Operator Thank you. Our next question comes from Nikhil Mishra with Al Ramz, who says, thank you for the presentation. Regarding the commercial portfolio, can you please provide some colour on the current average cap rates? And how do you see those evolving over the next couple of years? Your thoughts on that, please.

Faisal Falaknaz I'd say the range of commercial office cap rates are somewhere between 6.5 to 7.5%, depending on the quality of the assets. I think ICD Brookfield, for example, traded 6.5, if not lower. ADGM, our asset, is trading below 7. Where do I see rates going over the long term? I do expect those cap rates to start contracting as more institutional money starts flowing into the market. That's part of the upside story that we always highlight.

Operator Thank you. Our next question comes from Basma AlGhonaim with Hassana Investment Company, who asks, on cash collections, has there been any changes to payment terms? On land replenishment, how much is land purchases expected to be as a percentage of deployment? Can you give an approximate number?

Faisal Falaknaz We have been pushing in terms of payment plans. We are currently somewhere around 60 to 70% during construction. We do go up to 80 in some instances. But on average, we are somewhere around 60 to 70%. And then the latter part of the question was? Just a second. Allocation. The majority of the allocation, I would say, more than 50, 60, 70% is going to go to recurring income and then the rest would go to land replenishment.

Operator Thank you. Our next question comes from Karim Sawabini with Moon Capital, who asks, how do you think about sales outlook in Egypt going forward, expecting some normalisation post devaluation? Also, Abu Dhabi price increase has been lagging that of Dubai. Do you expect that to catch up, given Abu Dhabi is fast becoming an investment destination?

Faisal Falaknaz On Egypt, you'll notice Q1 was a quiet quarter where we didn't launch a lot, given the expected devaluation that was coming. We started picking up in Q2 and you'll see that reflected in the numbers reported. We recently launched Ogami in the North Coast. And that was an extremely successful launch. We haven't publicly announced the numbers, but what we've always been seeing is there's always demand for real estate when you put it out in Egypt and especially for a product of such offerings. We expect SODIC to significantly catch up in terms of sales momentum before the end of the year.

In terms of Abu Dhabi catching up with Dubai, absolutely. It's happening. Every time we launch a new product, we keep increasing prices. We're getting ready to launch The Arthouse on Saadiyat Grove, which will also break new records in terms of pricing compared to the other previous launches we've done during the beginning of the year.

Operator Thank you. Our next question comes from Ghobash Trading and Investment Co., who asks, what's management's expectations for UAE pre-sales in FY 24? And how has market share evolved so far in 1H 24?

Faisal Falaknaz I'll refer to the guidance for the year, which is 29 to 31 billion dirhams. UAE will probably make 27, 28 billion dirhams. Of that market share, we are the dominant player in Abu Dhabi. But Dubai is a much larger market. Dubai did around 300 billion of sales last year, compared to Abu Dhabi, which did 50 billion. And it seems both markets are on track to break those records this year.

Operator Thank you. Our next question is a follow-up from Nida Iqbal Siddiqi with Morgan Stanley, who asks, following up on the question about growth in Dubai, on a three- to five-year view, how much of your earnings do you believe will be driven by Dubai?

Faisal Falaknaz On the development side, probably 20 to 25%, I would say. Assuming we can continue replenishing land in Dubai, probably 20 to 25%.

Operator Thank you. At this time, we have no further questions. I will turn back to the management team for any closing comments.

Faisal Falaknaz Thank you, guys. Again, we are really excited about what is coming for Aldar. We expect to continue growing at a very similar momentum for the next few quarters. And we feel very confident about the guidances we have given to the market. And what we are most excited about is the following year. Aldar is on a very exciting journey of growth. And as management, we are really excited and confident about what is to come. And thank you very much.

Operator Thank you, everyone, for joining us today. This concludes our call and you may now disconnect your lines.